

# **REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR**

## **SPECIAL REPORT FOLLOW-UP ON MAYOR'S OFFICE, DISCONTINUED ECONOMIC DEVELOPMENT SECTION CITY DIRECTED FUNDS**

**SPECIAL REPORT (SR) 600008-14**

**October 31, 2008**



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Councilman Joe Shyne  
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: SR600008-14 - Special Report, Follow-Up on Mayor's Office, Discontinued  
Economic Development Section, City Directed Funds

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA  
City Internal Auditor

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**EXECUTIVE SUMMARY  
SPECIAL REPORT  
FOLLOW UP ON  
MAYOR'S OFFICE,  
DISCONTINUED ECONOMIC DEVELOPMENT SECTION  
CITY DIRECTED FUNDS  
SPECIAL REPORT (SR) 600008-14**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

**INTRODUCTION**

The Discontinued Economic Development Section (EDS), served as the focal point for the economic development activities carried out by the Administration. The City contracted with the Greater Shreveport Chamber of Commerce (GSCOC) to account for the city's portion of the budgeted allocation to administer the primary responsibility of the EDS. These restricted funds were called "city-directed funds" since the city had primary control over this portion of the funds.

**The program was discontinued and not funded in 2007. The amount of city directed funds during the duration of this program was approximately \$600,000 (\$599,000).**

**RECOMMENDATION EVALUATION RISK CRITERIA**

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. The audit contained five findings with eight recommendations addressing actions necessary to remedy the observed deficient conditions.

<i><b>Risk Levels</b></i>	<i><b>Recommendations</b></i>
<p style="text-align: center;"><b>High Risk</b></p> <p>Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.</p>	<ul style="list-style-type: none"> <li>▪ Recompute the fund balance or reimburse the City for any remaining significant funds. (Finding 1)</li> <li>▪ Submit itemized receipts to the GSCOC to make payments or reimbursements. (Finding 2)</li> <li>▪ Ensure that funds are expended in accordance with all established laws and regulations. (Finding 3)</li> <li>▪ Develop a written policy and specific criteria to govern the handling of its sponsorships. (Finding 4)</li> </ul>
<p style="text-align: center;"><b>Medium Risk</b></p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	<ul style="list-style-type: none"> <li>▪ Ensure both a request for travel form and a travel expense statement be prepared by and approved by the appropriate authority. (Finding 5)</li> </ul>
<p style="text-align: center;"><b>Low Risk</b></p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	None

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## **FINDINGS**

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**OBJECTIVES**

The objective of this special report was to follow up on the audit of the Mayor's Office, Discontinued Economic Development Section, City Directed Funds accounted for by the Greater Shreveport Chamber of Commerce (GSCOC). The original report was issued on October 26, 2006. We also performed a review of the remaining unspent funds of the program which totaled approximately \$200,000 and lasted approximately 21 months after the initial audit fieldwork was done. The initial fieldwork was concluded in March 2006. This review was performed as a special request of the City Council Audit and Finance Committee.

The follow up objective was to determine the progress made toward implementation of the recommendations contained in the report. We also wanted to be assured that the remaining unspent funds at the close of the program were not subjected to fraud, waste and abuse. The time period that we examined covered April 2006 through December 2007. Our fieldwork occurred September 2 through September 5, 2008.

**The amount of city directed funds during the duration of this program was approximately \$600,000.**

**SCOPE AND METHODOLOGY**

Our audit was performed in accordance with applicable generally accepted governmental auditing standards defined in Section A.40 of the Internal Audit Office Operating Instructions Manual. The scope of the follow-up included a determination as to whether the audit recommendations had been implemented during the period subsequent to the release of the report. The scope of the study of internal control was limited to the general controls surrounding the specific issues addressed. General audit procedures included, but were not limited to, the following:

- Reviewing applicable records and documents.
- Interviewing appropriate operating personnel and management.
- Observing operations.

**BACKGROUND**

The Economic Development Section consisted of two employees: the Economic Development Advisor (EDA) and the Office Specialist, whose combined salaries of

\$112,205 and other miscellaneous expenditures are paid from the Riverfront Development Fund. This section was responsible for economic development and promotion of existing and new businesses. It also served as a liaison to civic organizations and other entities involved in and pertinent to attracting new firms to the area.

Additionally, the city contracted with the Greater Shreveport Chamber of Commerce (GSCOC) to implement a marketing program to recruit new businesses, encourage jobs growth in primary growth industries, and enhance the city's economy. Riverfront Development funds of \$200,000 were budgeted annually to finance this contract, and 50% of this amount (\$100,000) is city-directed, which is controlled principally by the Mayor's Office, Economic Development Section. We did not audit the agreement between the City and the GSCOC. We did, however, audit the city-directed expenditures that occurred from April 2006 through December 2007.

The program was authorized by the city with appropriate funding for the period fiscal year 2001 through 2006. The amount of city directed funds during the duration of this program was approximately \$600,000. Due to carryover of unspent funds for this program, the program lasted until December 2007.

### **CONCLUSIONS/FINDINGS/RECOMMENDATIONS**

We believe the Mayor's Office, Economic Development Section should develop policies and procedures that provide for improved financial and operational accountability for future programs. (**Auditor's Note:** Findings 2 through 5 are similar to those findings issued in the prior report dated October 26, 2006 with the only exceptions being the supporting documentation that was used to develop the findings.)

Based on the results of our audit, our recommendations address the following:

- Recompute the fund balance or reimburse the City for any remaining significant funds and inform the Mayor of any remaining balance and take appropriate action.
- Itemized receipts be submitted to the GSCOC to make payments or reimbursements.
- Management study the existing controls established to ensure that funds are expended in accordance with all established laws and regulations (especially Article 7, Section 14, of The Louisiana Constitution).
- Management should develop a written policy and specific criteria to govern the handling of its sponsorships.

- Management ensure both a request for travel form and a travel expense statement be prepared by and approved by the appropriate authority.

## 1. City Directed Funds Balance

**Criteria:** Per section I.C. of the professional service agreement between the City and the GSCOC, any funds not expended during the year will remain with the Chamber to be applied to the next year's city-directed funds, to be used at the discretion of the Mayor.

**Condition:** We noted that there was over a \$70,000 difference in the balance of the city-directed funds calculation by the GSCOC and our re-calculation encompassing the duration of the program, which lasted between fiscal years 2001 through 2006. Per the GSCOC, the balance was \$6.97 and the balance per the City was \$74,411.96 as of December 31, 2007 (which is an exact difference of \$74,404.99).

	<b>GSCOC Calculation</b>	<b>Internal Audit Calculation</b>	<b>Difference</b>
As of December 31, 2007	\$6.97	\$74,411.96	\$74,404.99

**Effect:** Understatement of fund balance

**Cause:** GSCOC miscalculated the fund balance of the program.

**Recommendation:**

1. We recommend that GSCOC either recompute the fund balance or reimburse the City for any remaining significant funds.
2. Additionally, inform the Mayor of any remaining balance and take appropriate action.

**Management Plan of Action:** We are investigating the difference and will act appropriately.

## 2. Inadequate Supporting Documentation

**Background:** The GSCOC handles the accounting and processing of payments for the city-directed share of the marketing funds. To receive payment for reimbursement of expenditures, the Director of Film, Media, and Entertainment (formerly the Economic Development Advisor) submits the documents (invoices, receipts, etc.) to the chamber as support for payment.

**Criteria:** Good internal controls dictate that all expenditures are supported by adequate and sufficient documentation. Original documents should be used to make payments and/ or reimbursements.

**Condition:** We examined the related supporting documentation for 38 (11 of the expenditures occurred before the issuance of the audit report dated October 26, 2006) expenditures of the city-directed funds for the time period from April 2006 to December 2007. We noted the following deficiencies:

- Lack of detailed or itemized receipts that allow for determining whether items purchased were appropriate.
- Lack of purpose for expenditures (i.e., who, what, where, when, why.)

**Effect:**

- Potential for fraud, waste, and abuse.
- Inappropriate or unallowable purchases/expenditures could occur.

**Cause:** There was no requirement for detailed/itemized receipts to support expenses.

**Recommendation:** We recommend that itemized receipts be submitted to the GSCOC to make payments or reimbursements.

**Management Plan of Action:** In the future when a program like this is developed we will adhere and comply with all city policies/procedures and city audit recommendations.

## 3. Improper Use of City Funds

**Criteria:** Article 7, Section 14, "Donation, Loan, or Pledge of Public Credit", of the Louisiana Constitution prohibits the expenditure of public funds on items that may be viewed as a donation, loan, or pledge of public credit. City Ordinance Article 3 Sec. 26-53, "Donation of city funds; contracts" prohibits the donation of funds without the approval of city council and a contract.



**Condition:** During our review, we noted the following expenditures that appeared to be inappropriate or violate Louisiana Constitution:

- \$10,886 for sponsorships,
- \$843 for landscaping of the entertainment district,
- \$157.86 for alcoholic beverages in Washington D.C

**Effect:** Inappropriate and/or improper use of public funds in violation of Article 7, Section 14, of the Louisiana Constitution and City Ordinance Article 3 Sec. 26-53, "Donation of city funds; contracts."

**Cause:** Management had not realized that the purchases were a violation of the state constitution.

**Recommendation:** We recommend that:

1. Management study the existing controls established to ensure that funds are expended in accordance with all established laws and regulations (especially Article 7, Section 14, of the Louisiana Constitution).
2. Identified deficiencies be corrected and corrective action be documented.

**Management Plan of Action:** In the future when a program like this is developed we will adhere and comply with all city policies/procedures and city audit recommendations.

## **4. Awarding of Sponsorships**

**Criteria:** To alleviate the appearance of favoritism, good management practice dictates that policy and criteria should be developed to govern and guide the operations of an entity. City Ordinance Article 3 Sec. 26-53, "Donation of city funds; contracts" prohibits the donation of funds without the approval of city council and a contract.

**Condition:** The Section had not developed criteria for awarding sponsorships. Specifically, we noted that there was no:

- Intended use of funds for the sponsorships.
- Legal basis for awarding the sponsorship funds (as is required for other city donations).

For the period from April 2006 through December 2007, we were able to identify expenditures totaling \$10,886 for sponsorships.

**Effect:**

- Appearance of favoritism.
- Adverse publicity.
- Funds may not be used for the intended purpose.

**Cause:** Management may have failed to anticipate the perception of favoritism.

**Recommendation:** In order to ensure consistency and fairness, management should develop a written policy and specific criteria to govern the handling of sponsorships.

**Management Plan of Action:** In the future when a program like this is developed we will adhere and comply with all city policies/procedures and city audit recommendations.

## **5. Authorization for Travel/Approval of Travel Expense Statements**

**Criteria:** In order to help ensure travel activities accomplish the objectives of the organization, all travel should be properly approved by the appropriate authority, preferably via a travel request form which estimates the cost of the trip and helps management in budgeting for this function. In addition, a travel expense statement should be prepared at the conclusion of all authorized travel and approved by the appropriate authority. The travel expense statement is a summary of expenses incurred while performing the mission of the organization.

**Condition:** A review of travel expenditures from April 2006 through December 2007 audit period revealed that neither travel request forms nor travel expense statements were prepared.

**Effect:** Fraud, waste, and abuse could occur.

**Cause:** Management had not realized that a travel expense statement should be prepared for expenses during the accomplishment of the mission of the Film, Media, and Entertainment office (formerly the Economic Development office).

**Recommendation:**

1. We recommend that management ensure both a request for travel form and a travel expense statement be prepared and approved by the appropriate authority.
2. To reduce paper work processing, consider combining travel for a set period on one travel request/expense form to be approved by appropriate authority.

**Management Plan of Action:** In the future when a program like this is developed we will adhere and comply with all city policies/procedures and city audit recommendations.

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